



FG ASSET MANAGEMENT

ECONOMIC EXPRESS

FEBRUARY 2023

February saw the turnaround of investors' confidence as the expectations for the swift slowing of elevated inflation, proved to be too hasty. Consequently, US rate hike expectations were adjusted to a higher terminal rate and remained there for a longer period than what was previously expected. The adjustment is now more in line with the US Fed's (Federal Reserve) forecasts. As a result, financial markets came under pressure as the expectations for higher interest rates were priced in.

The month started off with the US Fed increasing the Fed Funds rates by 0.25% to the new range of 4.5% to 4.75%. This was in line with expectations and was the eight consecutive hike from the US Fed to bring the total increase to 4.5% over the past 12 months. The Fed reiterated that further rate hikes remain necessary as inflation remain elevated and expect monetary policy to stay restrictive for some time.

The view on inflation shifted over the month as several US economic indicators painted a picture of a much stronger and resilient US economy. A very strong employment report reflected a decline in the unemployment rate to 3.4%, the lowest level since May 1969. This was in contrast to the expectations for employment to deteriorate. Moreover, US retail sales rose the most in almost 2 years and told a story of consumer demand remaining strong. The 3% increase on the month was well ahead of expectations, with all underlying subsectors increasing on the month. The strong economic data over February goes against the Fed's aim of slowing demand and was seen to strengthen the view that the Fed would need to do more to cool the economy in order to slow elevated price pressures.

The US inflation release further fuelled expectations for tighter monetary policy as headline inflation only slowed from 6.5% to 6.4%, less than the 6.2% expected. The breakdown of the report, point towards elevated services inflation, particular within the shelter component.

Locally headline inflation eased to 6.9% from 7.2%, in line with expectations as transportation prices continue to decline. Food inflation however unexpectedly increased from 12.4% to 13.4%, which could be as a result of additional loadshedding putting upward pressure on food prices. Core inflation, excluding food and energy, remained unchanged at 4.9%, below expectations of 5%.



The much-anticipated budget announcement was made in the second half of the month. It was overall well received by the market as there were no unexpected tax increases, more clarity over Eskom's debt support was provided and government reiterated their commitment to maintaining a prudent fiscal stance. It was encouraging to see that government remains committed to staying fiscally prudent and stabilising South Africa's debt. There were concerns that the expense and revenue forecasts were too optimistic and the achievability of the deficit and debt targets. Notwithstanding this, the Treasury's intention to keep South Africa fiscally prudent especially a year ahead of the 2024 national elections, must not be underappreciated. In addition, the budget also provided more detail of the plans to support Eskom. National Treasury committed R243bn in debt relief to Eskom over the next 3 years. The bailout will help alleviate Eskom's weak financial position; however National Treasury has put strict conditions on Eskom to 'safeguard public money'. This will free up cash for maintenance and investment in other much needed areas.

Towards the end of the month South Africa has been identified as country that will come under increased monitoring (grey listing) following deficiencies in our anti-money laundering, terrorism, and proliferation financing framework. Government has addressed 59 of the 67 deficiencies that were first identified, with only 8 remaining deficiencies still to be resolved. The effective implementation of the legislation was identified by the FATF (Financial Action Task Force) as lacking, however government's request for a formal assessment again in June 2023 could be seen as an indication that progress is expected regarding the enforcement of legislation. Overall, the grey listing does not prevent new investments, although it does increase the cost of doing business.

Index	Asset Class	FEBRUARY 2023
STEFI Composite Index	Local Cash	0.54%
FTSE/JSE All Bond (Total Return)	Local Bonds	-0.87%
FTSE/JSE SA Listed Property (Total Return)	Local Property	-0.72%
FTSE/JSE Africa All Share (Total Return)	Local Equities	-2.19%
JP Morgan World Govt Bond index (USD)	Global Bonds	-3.20%
FTSE EPRA/NAREIT Global Index (USD)	Global Property	-4.30%
MSCI AC World (USD)	Global Equities	-2.83%

Source: Morningstar

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